

MONTHLY REVENUE REPORT

August 2006

The revenue generated from Michigan's major General Fund and School Aid Fund earmarked taxes totaled \$1.56 billion in August, which was down 12.8% from last year's level. Some of this decline was due to noneconomic timing factors, so the sharp decline in August tax collections was not as severe as it appears. Nevertheless, the drop in tax collections was significant in August and was greater than had been expected. While the casino and severance taxes were the only major taxes to experience an increase in collections in August, the largest declines were in income tax withholding payments, single business tax receipts, sales tax collections, and State education property tax revenue. When the impact of the timing issues is accounted for, the weakness in tax collections in August was concentrated in income tax withholding payments. This sharp decline in August followed a strong increase of 13.0% in July. So far in FY 2005-06, the revenue collected from Michigan's major taxes is up 0.3%.

Net income tax revenue (gross collections less refunds) totaled \$480.0 million in August, which was down 8.2% from last year's level. Gross collections were down 9.0% due primarily to an 8.9% fall in withholding payments. This decline in withholding payments was due in part to some fluctuations in the timing of collections, which was anticipated; however, the decline was much stronger than expected most likely due to continued weakness in payroll employment. Michigan's payroll employment has been on a downward trend since peaking in June 2000, and in July 2006 it fell to a new low level. This decline in gross collections was offset slightly by a 22.1% decline in the amount of refunds that were paid to taxpayers. On a fiscal year-to-date basis, net income tax collections are up 2.6%.

Sales tax collections were also weak in August, as they declined 8.7% to \$569.1 million. While sales tax collections were down even more than net income tax collections, most of the sales tax decline was anticipated due to timing factors that inflated last year's collections. Motor vehicle sales tax collections declined 18.6% from last year's level and the \$69.8 million collected in August from retail motor vehicle sales was the lowest level for the month of August since 1998. Sales tax collections from all other retail transactions fell 7.1% in August. So far in FY 2005-06, sales tax collections are practically even with last year's level.

Single business tax receipts totaled \$98.6 million in August, which was down 48.1% from the year-ago level. This sharp decline in August followed a strong 39.6% increase in July. These contrasting monthly changes reflect a shift in the timing of the quarterly payment, which was due at the end of July this year while it was due in August last year. The combined revenue for July and August was down 7.3%. On a fiscal year-to-date basis, single business tax collections are down 1.7%.

State education property tax collections totaled \$106.6 million in August, representing a decline of 12.3% from last year's level. On a fiscal year-to-date basis, collections are down 2.4%. Despite the fact that collections are down so far in FY 2005-06 with only one month left in the fiscal year, it is by no means clear that State education tax collections will indeed be down this fiscal year because the collection of this tax is extremely skewed to the end of the fiscal year. The tax is not due until mid-September, so it is estimated that over 70.0% of the revenue that will be generated this fiscal year from the State education property tax has not yet been collected.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for August 2006, along with their fiscal year-to-date collections and growth rates. Also presented are the consensus revenue estimates for FY 2005-06, which were adopted at the May 2006 Consensus Revenue Estimating Conference.



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MICHIGAN REVENUE UPDATE
AUGUST 2006
(dollars in millions)

Type of Revenue	August Collections		FY 2005-06 to Date ²⁾		FY 2005-06 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 2004-05
Gross Income Tax	\$502.6	(9.0)%	\$ 6,580.1	1.9%	\$ 7,933.7	2.8%
Refunds	(22.6)	(22.6)	(1,586.8)	(0.3)	(1,679.0)	4.2
Net Income Tax	\$480.0	(8.2)%	\$ 4,993.3	2.6%	\$ 6,254.7	2.4%
Sales Tax	569.1	(8.7)	5,533.1	0.1	6,709.6	1.7
Motor Vehicles	69.8	(18.6)	598.5	(12.0)	---	---
All Other Sales Tax	499.3	(7.1)	4,934.6	1.8	---	---
Use Tax	124.6	(5.9)	1,163.2	0.1	1,411.6	0.7
Tobacco Taxes	103.2	(9.8)	967.1	(0.3)	1,179.5	0.0
Single Business Tax	98.6	(48.1)	1,574.9	(1.7)	1,852.9	(3.2)
Insurance Tax	29.4	(13.0)	197.3	(7.5)	235.0	(5.8)
State Education Property Tax	106.6	(12.3)	595.7	(2.4)	2,010.0	5.0
Real Estate Transfer Tax	25.8	(7.9)	254.6	(0.6)	320.0	2.1
Estate/Inheritance Tax	(0.1)	(105.3)	0.2	(99.2)	1.0	(99.0)
Casino Wagering Tax ⁴⁾	13.1	4.8	142.2	5.8	152.4	4.5
Oil & Gas Severance Tax	5.7	54.1	73.2	36.6	94.0	40.9
Total	\$1,556.0	(12.8)%	\$15,494.8	0.3%	\$20,220.7	1.1%
Addendum:						
Gross Lottery Sales ⁴⁾	\$156.8	5.3%	\$2,012.5	6.9%	\$2,223.8	8.7%
Net to School Aid Fund ⁴⁾	\$ 51.3	0.4%	\$ 625.8	4.9%	\$ 708.5	6.1%

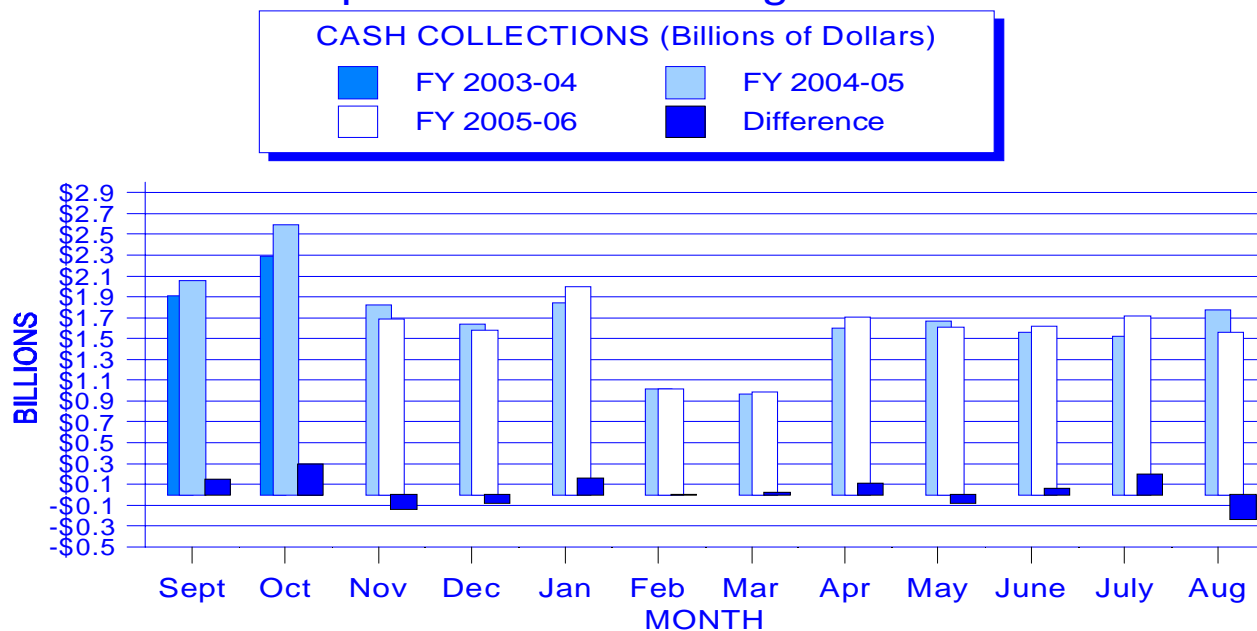
1) Total collections are unadjusted cash collections unless otherwise noted.

2) FY 2005-06 year-to-date collections begin with November 2005 collections to reflect accrual accounting.

3) Consensus revenue estimates adopted at the May 17, 2006, Consensus Revenue Estimating Conference.

4) Lottery and casino revenue is not accrued, so FY 2005-06 collections will include October 2005 to September 2006.

Actual Revenue Collections for Major State Taxes*
September 2004 to August 2006



*Comparison of actual collections. Major taxes include the net income (gross collections less refunds), sales, use, tobacco (cigarette tax and other tobacco products tax), SBT, insurance retaliatory, estate, oil and gas severance, State education property, real estate transfer, and casino wagering taxes.